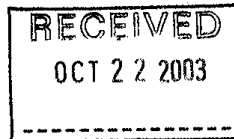




DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

October 21, 2003



MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR TAX
ADMINISTRATION

FROM:

W. Todd Grams *WTD*
Chief Information Officer

SUBJECT:

Draft Audit Report – Annual Assessment of the Business
Systems Modernization (BSM) Program (Audit # 200320029)

We have reviewed your report and appreciate your acknowledgement of the complexity of the modernization program and of the progress we have made in defining our management processes and capabilities. These capabilities are essential to effectively acquire and implement the modernized information technology solutions.

We have addressed concerns raised by the IRS Oversight Board, the General Accounting Office (GAO), and your office by reducing both the scope and the pace of the Business Systems Modernization (BSM) program by stopping four projects last December, although one additional project was started in April. We are currently reviewing whether that decision should be reconsidered.

The BSM program had a number of significant achievements this year:

- We deployed two applications that immediately produced significant taxpayer benefits: the Internet Refund application, which has been accessed over 20 million times by taxpayers, and the Internet Employer Identification Number application which allows businesses and taxpayers to apply for and receive employer identification numbers over the Internet. Through the end of August, over 213,000 requests have been received using that application. In addition, we were able to modify the Internet Refund application to provide taxpayers with Advance Child Tax Credit refund status on the Internet (over 15 million users to-date). The Internet Refund and Advance Child Tax Credit have led directly to improved service both for users of these applications as well as for many other callers due to the reduced customer service demand.
- Partnering with the Treasury Department, we are implementing the Human Resources (HR) Connect Release 1 application. This application reduces the administrative burden for employees who routinely execute personnel actions. Over 73,000 IRS employees now have access to this first release of HR Connect. We will bring the remaining IRS employees on board by the end of the calendar year.

- The Business Systems Modernization Office (BSMO) was rated at Level 2 of the Software Engineering Institute's Capability Maturity Model for software acquisition. As such, we were the first civilian agency of the U.S. Federal government, and the first multi-project organization, to achieve this rating. The PRIME Contractor, Computer Sciences Corporation, was rated at Level 3, the first in the world to achieve that distinction.

Since the completion of your report, we have implemented Release 1.1 of the e-Services project, which includes the following services:

- Registration: tax professionals will be able to register on-line and create an electronic account; they will also be able to change their registration information on-line, such as a change of address.
- Preparer Tax Identification Number (PTIN): tax professionals will be able to apply for a PTIN to use in lieu of their social security numbers for submitting returns.
- Taxpayer Identification Number (TIN) Matching: payers of income subject to backup withholding and their authorized agents will be able to use TIN Matching to verify that correct taxpayer identification numbers are used.
- Indirect Channel Management: marketing and information campaigns and individual third party contacts will be improved through information integration, coordination, service delivery, and performance measurement. IRS employees will use this application to systematically direct activities with partner communities to meet strategic goals and enhance relationship management.

Release 1.2 of our e-Services project will provide third parties with the capability to apply on-line for participation in any e-file program. This will allow applicants' information to be electronically updated and maintained. We have already released the final internal production test for Release 1.2 and will release the final product to the public later this month or early next month.

Nevertheless, we agree this year has been disappointing when compared to our goals. As noted in your report, projects such as the Customer Account Data Engine (CADE), Integrated Financial Systems (IFS), and the Custodial Accounting Project (CAP) significantly exceeded their projected costs and target delivery dates.

The base release of the Security and Technology Infrastructure Release (1.0), noted in your report as ISS, was delivered on time. Generally, there are some changes in the infrastructure, such as additional capacity for each application release. Perceived delays or changes in the ISS delivery schedules were a result of delays of the applications that were *going to run* on the infrastructure, not delays *in delivering* the infrastructure itself.

Because of our deep concern about the release delays and major cost increases to date, we have undertaken a number of special studies and reviews to evaluate the BSM program. As your report notes, CADE's current approach and management is being independently reviewed. We are conducting a program-wide root cause analysis of past performance and examining drivers of variances in costs and schedules. In addition, the PRIME has conducted its own in-depth review of CADE and has started a major review of the entire program by an outside management consultant.

We reaffirm our commitment to fully implement key management and project development processes. We continue to make good progress in developing and deploying a cost and schedule estimating capability consistent with best practices promulgated by Carnegie Mellon University's Software Engineering Institute. Although we have made significant improvements, further work remains to put stronger configuration management in place. My office is starting a special study of one aspect of this – how to better coordinate changes that affect both legacy and modernized systems. The further maturation of these and other key management processes will be a key focus for the BSM program in FY 2004.

Finally, we note and agree with your comments about the critical need for improved performance in ensuring that the PRIME contractor meets its commitments and takes greater accountability for when it does not. To that end, we established a Contract Executive Council over a year ago that has overseen the streamlining of the contracting process and eliminated all past undefinitized contracts. We are also implementing a policy directing the use of fixed-price as the standard contracting convention for all contracts and task orders for BSM development projects following system specification.

We are fully aware of the deep concerns expressed by both our internal and external stakeholders with the ability of the PRIME to meet its commitments on the BSM Program and of the BSMO to assure accountability and performance. The specific steps mentioned above are currently being taken to achieve a more stable program.

If you have any questions, please contact me at (202) 622-6800, or Fred Forman, Associate Commissioner for Business Systems Modernization, at (202) 622-3378.